

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 PRS-01 USIA-12 RSR-01 /167 W

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P R 091615Z JUL 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 9712

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY AND FRB

REF: ROME 6223

1. SUMMARY: LIRA STRENGTHENED SLIGHTLY AGAINST DOLLAR,
DM, AND STERLING JULY 9. OVERALL BALANCE OF PAYMENTS DEFICIT
THROUGH MID-JUNE WAS \$987 MILLION. END SUMMARY.

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2. COMMERCIAL LIRA STRENGTHENED SLIGHTLY AGAINST DOLLAR WITH AVERAGE AT FIXING ON JULY 9 OF 571.15 LIRE PER DOLLAR COMPARED TO 577.95 ON JULY 6. FINANCIAL LIRA ALSO STRENGTHENED SLIGHTLY AGAINST DOLLAR AT 609.875 ON JULY 9 COMPARED TO 612.125 ON JULY 6. SPREAD BETWEEN TWO RATES AT 6.8 PERCENT IS LARGEST SINCE IMMEDIATELY AFTER INTRODUCTION OF DUAL MARKET. COMMERCIAL LIRA LOST SOME GROUND AGAINST SWISS FRANC BUT STRENGTHENED SLIGHTLY AGAINST DM AND STERLING.

3. UNDERSTAND FROM EXCHANGE TRADER IN MILAN BANK THAT DOLLAR OPENED AGAINST COMMERCIAL LIRA JULY 9 AT ABOUT 580 LIRA PER DOLLAR BUT WEAKENED TO 571 AT FIXING. TRADER SAID BANK OF ITALY INTERVENED TO SUPPORT LIRA, BUT THAT DOLLAR STRENGTHENED SOMEWHAT IN AFTERNOON TO 573/574 LIRA PER DOLLAR. ITALIAN EXCHANGE MARKETS WERE EXTREMELY NERVOUS AND THERE WAS HEAVY TRADING.

4. PROVISIONAL MONETARY MOVEMENTS IN 1973 THROUGH JUNE 15 SHOW GLOBAL DEFICIT OF \$987 MILLION, OF WHICH \$644 MILLION WAS FINANCED BY WORSENING IN POSITION OF COMMERCIAL BANKS AND \$343 MILLION FROM NET OFFICIAL RESERVES, ESPECIALLY IN FORM OF SHORT-TERM BORROWING FROM EC PARTNERS EARLIER IN 1973 WHILE LIRA WAS STILL PART OF EC SNAKE. SUCH NET EC BORROWINGS TOTALED \$420 MILLION THROUGH JUNE 15. DURING PAST WEEK BANK OF ITALY PURCHASED SOME DANISH KRONER WITH DOLLARS PARTLY TO SUPPORT KRONER AND PARTLY TO OBTAIN KRONER FOR REPAYMENTS ON EARLIER ITALIAN BORROWINGS FROM DANISH CENTRAL BANK. (AS OF JUNE 15, BOI OWED DANISH CENTRAL BANK \$66 MILLION.) DURING ENTIRE PERIOD THROUGH MID-JUNE SPECIAL EUROMARKET BORROWINGS BY IMI AND ICIPU TO HELP PROTECT OFFICIAL RESERVES TOTALED \$850 MILLION.

5. IN TWO-WEEK PERIOD JUNE 1-15 ALONE, I.E., INCLUDING "BLACK THURSDAY" ON JUNE 14, OFFICIAL GOLD AND CONVERTIBLE EXCHANGE RESERVES FELL BY \$126 MILLION. HOWEVER, IN SAME PERIOD, COMMERCIAL BANKS IMPROVED THEIR NET FOREIGN POSITION BY \$99 MILLION, PROBABLY REFLECTING REPAYMENT OF SOME REVERSE SWAPS WITH ITALIAN EXCHANGE OFFICE. THE DECLINE LIMITED OFFICIAL USE

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IN OFFICIAL RESERVES ALSO REFLECTED EXCHANGE MARKET INTERVENTION.

6. BOI CONFIRMS TRUTH OF REPORTS OF PLANNED \$1 BILLION EUROMARKET BORROWING BY NATIONAL ELECTRICITY AGENCY, ENEL. UNDERSTAND THAT AT LEAST PART OF PROCEEDS OF ENEL BORROWINGS WILL BE USED TO FINANCE ADDITIONAL REPAYMENTS BY ITALIAN COMMERCIAL BANKS OF SHORT-TERM

BORROWING BY BANKS IN EUROCURRENCY MARKET. VOLPE

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